

In Egypt, Will an Economic Revolution Follow?

A stagnant economy contributed to the unrest that brought down Egypt's Mubarak. Fostering entrepreneurship must be a priority for the next government.

By [Dane Stangler](#) and [Robert E. Litan](#) | Feb 12, 2011



Barriers to Entry Remain: In Cairo, where a quarter of Egypt's population lives, the cost of incorporating a business is staggering.

The popular uprising in Egypt has quickly been accorded a conventional explanation: The people want democratic government. This is not necessarily wrong, but it risks ignoring deep-seated trends in Egypt that, if neglected in the coming political transition, will only boil over again. Specifically, Egypt suffers from a stagnant economy and it should not be surprising that a lack of economic opportunity contributed to the unrest.

By some measures, of course, Egypt is in better shape than many other nations. Its per capita income is larger than countries such as India and Vietnam that are celebrated for rapid economic progress. *The Economist* reported last year that two-thirds of Egyptian households have a satellite receiver, nearly 9 homes in 10 have a refrigerator, and nearly all citizens have piped water and electricity. As evidenced by the role

of Twitter and Facebook in the recent protests, the information technology revolution has touched Egypt as well.

Yet Egypt is also a case in point that while a country's level of development may appear modern, the trajectory of its economy matters more. In particular, economic growth and the distribution of that growth offer a better picture of an economy's health and, importantly, the political economy of a country.

By the usual standard, Egypt's economy has expanded nicely in recent years: After growing at 7 percent a few years ago, it expanded by roughly 5 percent in 2009 and 2010.

As others have noted, however, all is not well in the land of the pharaohs. Poverty has crept up in the last few years and, as in Tunisia, unemployment is skewed: the United Nations says that 90 percent of unemployed Egyptians are under the age 30. In a consumer survey released last month, Credit Suisse found that citizens across every strata of wealth expect shrinkage in household income in 2011. Double-digit food inflation has hit Egypt hard, especially since food comprises an astonishing 40 percent of household spending.

Most important, Egypt's economic structure does not appear particularly conducive to individual economic initiative: The country ranks No. 96 in the Index of Economic Freedom (out of 179 states), and No. 94 in the Doing Business rankings (out of 183 countries). As measured by the World Bank, Egypt's "entry density" (new ventures registered per 1,000 people of working age) is 0.13, meaning it has among the lowest start-up rates in the world.

Whatever type of political regime succeeds that run by Hosni Mubarak, there can be no doubt concerning the nature of the economy that must develop in

Egypt: One premised on entrepreneurship as the driver of economic growth. Karl Marx famously insisted that a society's workers, not the bourgeoisie, must own the "means of production." But for broadly shared growth to take hold—for entrepreneurial capitalism to develop—the people must own the economy in a different manner. They must have the opportunity and the motivation to start and grow new companies.

So how can the country end this severe dearth of entrepreneurship and get itself on the right path?

The country can start by making it easier to start and operate a business. In Egypt, it takes only six procedures and seven days to start a company—which is not bad by international standards. The cost of incorporation, however, is uneven. In Egypt as a whole, for example, it costs just 6 percent of one's annual per capita income to start a business—just above the 5 percent cost in most advanced economies. Yet in Cairo, the metropolitan area in which roughly 25 percent of the country's entire population lives, budding entrepreneurs may need to spend more than 25 percent of their annual income to launch a business; residents of Alexandria face a similar cost barrier. Far from being engines of economic growth, Egypt's leading cities are stultified.

And once a new company manages to come into being, the environment is not nearly as friendly as it needs to be. On four World Bank indicators—dealing with construction permits; paying taxes; enforcing contracts; and closing a business—Egypt gets extremely poor marks. The requisite time for complying with the tax code is twice as long as other countries in the Middle East and North Africa, not to mention in developed nations. Start-ups need improved access to financing as well: In surveys, far fewer Egyptian companies report the use of credit, loans, and banks than in neighboring

countries, not to mention places across the globe. (On top of domestic constraints, moreover, the United States and other countries, by pouring foreign aid into Egypt, sometimes contribute to the suppression of indigenous entrepreneurship.)

To be sure, entrepreneurship cannot solve all Egypt's problems, and on several indicators tracked by the World Bank, the country looks no worse than any other nation. But it is certain that without the ability to start and grow a business—and to allow it to fail—no country will enjoy either economic growth or political stability. That is because economic freedom is the handmaiden of political freedom. If Egypt's next government wants to satisfy its citizens, it will start with entrepreneurship.

Rulers across the Arab world who are unsettled by the events in Cairo would be wise to follow suit.

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